REPORT TO	**:**	**MANAGEMENT COMMITTEE**
AGENDA ITEM	**:**	**4**
TOPIC	**:**	**RENT INCREASE PROPOSAL FOR CONSULTATION 2024/25**
REPORT BY	**:**	**FRASER STEWART - DIRECTOR**
DATE OF MEETING	**:**	**20TH NOVEMBER 2022**

1. BACKGROUND

a) We plan to consult with our tenants on a proposed increase from 27th November 2023 through to 22nd December 2023 with a final recommendation going to Management Committee at the meeting of 5th February 2024.

b) Consultation on rent increase is a statutory requirement. Beyond this we must have regard to the Scottish Social Housing Charter. This refers to landlords setting rents through consultation to strike a balance between service standards and costs and affordability to tenants; and a requirement for tenants to get clear information on how rental income is spent.

c) The Association's starting point for annual rent increases and core business planning assumption is that rents increase by CPI +1% (previously 0.7%). Therefore, our rents "should" increase by 7.7%

d) Our core business plan assumption (CPI +1%) requires further review because our increase for 2023/24 was around 7% below the inflation the Association experienced that year and CPI +1% is unlikely to make our plan financially viable. Last year tenants were informed that future increases would need to be at least 1% above inflation for many years to make up for the "loss" we sustained through the 2023/24 below inflation increase.

e) The recent reduction in CPI for October – to 4.6% – should not impact the level we set rents at. We set our rents retrospectively which means we are playing catch up with costs we have already had to pay out. We must do this at the same point each year.

f) Our rents should be affordable to those in low paid employment, comparable (to other local RSL providers) and viable. There are no strict definitions of these terms but, by accepted definitions (eg, the percentage rent represents of net household income), our rents are technically "affordable". However, in last year's consultation, of the 137 tenants who responded and were not in receipt of any benefits, 92% told us that they ‘sometimes’ or ‘often’ struggle to meet their monthly expenses. How our rents compare to our peer group of the largest 14 Associations in Glasgow is given at Appendix 1.

g) At the time of writing this report, only some of the likely increases of our peer group and GWSF Associations are known. These are attached at Appendix 2 and will be updated at the meeting considering this report.

h) 71% of our tenants receive housing support through Housing Benefit or Universal Credit, which is typically paid directly to NGHA. A small proportion of the remaining 29% are likely to receive their housing costs through Universal Credit, paid directly to themselves and to which they then pay NGHA. This number is harder to quantify but is likely to be a limited number of households.

i) Wages growth in the UK has been around 7.8% in the private sector and 7.8% in the public sector. Minimum wage levels were increased by 9.8% in April 2023. Wages for low to middle income households appear to have kept up with this pace which is between 1% and 2% above inflation (ie, real growth). However, as poorer households suffered an 8% real drop in wages 2022/23, this just mean a bad predicament has improved only slightly. It is estimated that poorer households will not return to pre pandemic levels of real income until the end of 2026. See:
https://www.niesr.ac.uk/publications/low-middle-income-households-facing-seven-years-falling-living-standards?type=uk-economic-outlook
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/november2023
https://www.niesr.ac.uk/publications/wages-grew-nearly-8-cent-q3-and-are-expected-grow-7-cent-q4?type=wage-trackers

j) How our rents in 2023/24 compare to other providers is detailed in the attached comparison of 3 apartment rents derived from the 22/23 ARC with the relevant 23/24 rent increase added (Appendix 1). We compare reasonably within the peer group of the 14 largest Associations in Glasgow, and the Scottish average for all RSLs, which includes LAs, of £90.71 for a measurably better product (in terms of extent of improvements, amenity and stock type) and service (we out-perform the vast majority of other RSLs in nearly all categories).

k) Our business plan cannot withstand increases of less than CPI +1% unless future compensatory increases are applied. Our core costs are staffing, services (landscaping and maintenance), renewals, utilities, insurance and financing - and these costs continue to increase. Additional services, such as bulk uplift, and additional staffing costs to cope with compliance and regulatory demands (IT and HR posts), have had to be absorbed in the context of increases that are significantly below inflation. In broad terms these additional (i.e., over and above CPI and non-recoverable) **annual** costs are as follows:

i) Reactive Repairs, +4%, c. £40k
ii) Electricity (lighting and lifts), +3%, c. £10k
iii) Staffing, +1% £55k
iv) Loan interest costs +30% £180k
v) Uplift on Overheads/other services. +24% £50k
vi) **Total additional <u>annual</u> costs: £335k**

In the context of a rent roll of approximately £11 million these costs alone represent a **3%** increase above inflation. The largest increase is down to interest costs, but these should be falling back, albeit slowly, due to falling inflation rates.

l) We cannot actually control the majority of our costs – eg, materials, utilities, loans, insurance etc., and our staffing costs were below inflation last year (and matched inflation for the previous 10 years). We have reduced staffing at management level but these will increase, although some long term savings are likely.

2. KEY ISSUES

a) 71+% of our tenants on Housing Benefit / Support will get any proposed increase met in full unless the increase takes the rent above the Local Housing Allowance (which it won't as the LHA is significantly higher that our rent) or the increase results in the benefit cap being breached. This would be highly unlikely and we appear not to have any potential cases.

b) After an unprecedented real reduction in wages (c. 8% for our in work tenants) there is now real growth in wages, but it is slow and is predicted to take a further 3 years before wages for poorer households are restored to pre pandemic levels.

c) Our rents still represent good value. Generally, they are similar to other Associations, as the attached comparison of 3 apartment rents for 2023/24 at Appendix 1 shows.

d) Our rents are around half that of the private rented sector which is our main "competitor", particularly for those not eligible for Housing Benefit/Housing Support through Universal Credit. Glasgow's average rent was £13,812 p.a. for a 2 bedroom flat at 30 September 2023. (Citylets Rental Index, see: https://www.citylets.co.uk/research/reports/property-rental-report-glasgow-2023-q2/).

3. CONCLUSION

a) These remain times of major financial hardship for our tenants, particularly those who are in relatively low paid employment. Any increase is going to be unwelcome for households not in receipt of benefit.

b) From a tenant and public perception perspective, any increase above inflation in the context of an ongoing cost of living crisis is likely to attract severe criticism (particularly in the context of headline inflation figure dropping quite sharply).

c) We have already fallen significantly behind the rent levels we require to maintain good financial health and provide high quality services. Between last year and this year, even with a 6.7% increase, we will have fallen behind our business planning assumptions by 9% (over £1m a year) and, based on the rate of inflation, as it has impacted us, by around 12%. That equates to a shortfall of £1.3m pa.

d) In our latest Tenant Satisfaction Survey, 88% considered our rents to very or fairly good value for money (compared to the Scottish average of 83%) with only 5% considering it poor or fairly poor value for money.

4. RECOMMENDATIONS

Committee are asked to consider the following proposals:

a) Continue to seek to consult with as many of those on low incomes, but ineligible for Housing Benefit/Housing Support through Universal Credit, as we possibly can.

b) For all stock: consult on an increase of 6.7%. On a typical 3 apartment rent of £99.56 per week this means an increase of £6.67 per week to £106.23 (equivalent to an annual increase of £347 to £5,523.96 p.a.). Apply the same increase to service charges that is agreed for rents after consultation with tenants.

Committee should note that applying an increase below our CPI+1% Business Plan assumption will likely mean a further extension in the period over which we need to apply above inflation increases.